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ABSTRACT

This monograph describes how to design cash incentive programs in higher education as a way to help employees achieve their best productivity and as the most cost-effective way to communicate and stimulate the work behaviors that the institution values. Including a mentoring role as part of recognition of model departments or model managers not only spreads the expertise, but also provides a boost to the morale of those recognized. In designing an incentive pay program institutions should: (1) delegate selection to a small committee of the right people; (2) announce the award program to key stakeholders; (3) evaluate those nominated against clearly defined, measurable criteria; (4) celebrate appropriately and communicate awards to the campus community; and (5) teach and stimulate emulation of the model behaviors through forums, workshops, and one-on-one sessions with other members of the campus community. Incentive programs have many benefits to the institution itself. The cost of a program generally matches the amount of the cash incentive itself. Plans can be designed in a number of ways. Descriptions of model department initiatives and model individual incentives are included. Also discussed are challenges for successful implementation, and communicating about incentive programs. (Contains 16 references.) (JB)

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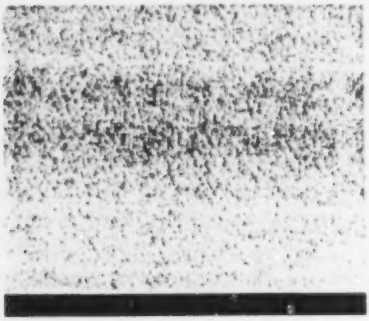

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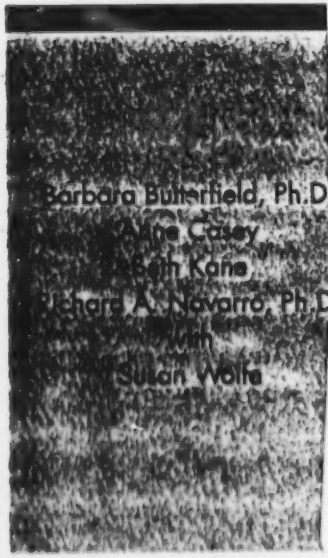

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The primary goal of the Association is to promote the effective management and development of human resources in higher education. CUPA works to achieve this goal by providing a forum for the exchange of ideas through annual conventions, workshops, and seminars; annual research and analysis on administrative and faculty salaries, benefits, and other surveys and special study reports; and periodicals, monographs, books, and videotapes on topics of interest to human resource practitioners.

Through its national office in Washington, DC, the Association keeps its members abreast of the most recent legislative and benefits information affecting human resource management and communicates that information to members through columns such as "Legal Watch" and "Benefits Watch" in the semimonthly newsletter, *CUPA News*. To keep members up to date on the latest benefits information, *Special Reports* and *Benefits Alerts* are mailed as events happen.

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At every institution, there is a work group that just seems to get things done right—an efficient, innovative, and supportive group that leaves human resource professionals wishing more teams could be like that.

Helping employees become the most productive they can be does not necessarily require expensive workshops facilitated by outside consultants. Very often, the staff members who exemplify desirable behaviors can teach their model work styles to others at the institution.

Designing an incentive program that rewards and encourages desirable work traits can improve institutional effectiveness, customer satisfaction, and employee morale without costing much money. In other words, a relatively small investment in the short term can result in long-term savings as well as the promotion of institutional objectives. Moreover, decentralized departments and work teams eager for recognition sometimes are willing to fund their own cash incentives. While cash rewards are an important part of an incentive program, many employees value recognition, the feeling they can make a difference, and the opportunity to be a mentor as much as they appreciate extra money.[1]

In the 1990s, particularly, incentive pay programs are increasingly popular. Colleges and universities recognize that productivity increases must come from better use of human resources, group incentives encourage worker involvement and interest, and, while base pay and benefits are conditions for membership in an organization, incentive pay identifies and rewards the behavior that management values most.[2]

In considering whether to implement a cash incentive program, weigh the short-term investment against the long-term value, and think about whether decentralized funding is a viable alternative. Critical to implementing an incentive program is presidential or provostial support. As one vice president says, "Get it, or forget it."

The supporting processes necessary, therefore, to develop an incentive pay program are:

- *Delegate*—to a presidential or provostial committee;
- *Measure*—achievements of the nominees against specific criteria;
- *Approve*—committee selections;
- *Celebrate*—appropriately for each nominee recognized.

Benefits to the Institution

In today's environment of rapid, complex change and decreasing resources, institutions are challenged to keep their work forces not only productive, but also innovative. Cash awards increase institutional creativity as well as individual esteem. Awards promote job security and morale by focusing attention on the institution's people and the internal processes that achieve success. They create a vehicle for innovative, efficient groups to achieve widespread recognition; they also increase the incentive to do excellent work.

Carefully crafted selection criteria identify models for departments, teams, and individuals to emulate. The criteria for selection for an incentive should, therefore:

- Reinforce and inspire emulation of the desired behavior;
- Send a clear signal that innovation is valued;
- Focus on accountability and accomplishment;
- Promote open, two-way communication;
- Recognize risk taking, creativity, and service improvement;
- Increase employee versatility through cross development of skills.

An effective incentive pay program sends a clear signal to the entire administrative community that they have advocates in top leadership, and that their success is critical to the institution. The leaders of the school can champion the practices of those who have been working diligently, undaunted by downsizing or other institutional changes, and creating an environment in which excellence flourishes.

The profit-making sector provides supporting data that incentive programs can stimulate the work force: a recent survey found that group incentives have a positive effect on productivity in about two-thirds of the firms that use them.[3]

Incentive pay plans benefit employees, too, and more than just monetarily. Research shows that employees of the 1990s value individualism over conformity; self-esteem, developed through challenge, responsibility, and growth; and reward. Meaningful work, making a contribution, and the opportunity to complete cycles of work are important aspects of the job, most employees say. They appreciate the opportunity to perform a variety of tasks, see a project through to completion, and hear feedback on how they did. Subsequent consultation allows employees to feel a sense of ownership for their work and provides them with the opportunity to make a difference.[4]

Successful employers see a connection between performance level and

their own fulfillment of employees' expectations, needs, and values.[5] The employer, therefore, has the responsibility to create an environment in which employees can thrive. It is critical in today's work world for leaders to select employees who demonstrate desirable work standards, hire managers who inspire and motivate, provide a meaningful incentive that captures employee interest, and facilitate the goal-setting and training needed to achieve success.

Program Costs

The cost of an incentive program generally matches the amount of the cash incentive itself. It is up to the program designers to decide whether to recognize more individuals, teams, or departments with less money, or fewer with larger cash bonuses. This decision will vary from institution to institution, depending on the culture. Some formulas for figuring appropriate cash incentives may be borrowed or modified from industry. Certain private-sector formulas suggest awarding a recognized work group with:

- Half of the department business manager's salary;
- A set amount of $30,000;
- Half the amount of the savings, if a department reduces expenditures;
- One-third of the income in excess of the budgeted income, if a department generates income, or a bonus to base pay that matches the percentage increase in net income.

By using cash incentives to reward model behavior, the cost of the program becomes a relatively inexpensive instrument for improving employee performance.

Types of Plans

Industry has been able to use a wide variety of incentive pay programs that link improvements in sales and income to salary. Many sales departments, for example, pay their employees' commissions, or percentages of individual sales, to reward their top performers and limit their salary expenses on less productive workers. Profit sharing and productivity gain sharing, improvements in the ratio of payroll to sales, and reductions in the ratio of labor hours per unit of output are other ways that industry rewards employees.

Increasingly, though, small group incentives have gained in popularity because of their flexibility, their team-building components, and because they clarify institutional goals.[6] A recent survey found that 15 percent of U.S. manufacturing and service companies include group incentives as part of their compensation packages.[7] In a college or university setting, incentives for work groups, teams, or departments can be quite effective.

Work groups can be permanent, renewable, or established for the term of the project.[8] Studies have found that small group incentives:

- Increase cooperation;
- Pressure weak performers to increase productivity (but may also depress behavior of higher achievers);
- Work best when tasks are interdependent;
- Clarify goals for workers.[9]

The most successful small group incentives have a high risk-reward orientation to convey and reinforce behavior.[10] They award the group as a whole, with no individual distinctions.[11] They are behavior based, encouraging flexibility to accommodate changing business conditions. Decentralizing decision making allocates responsibility to all employees and encourages synergy, because as employees share the gains of improvement, they develop a vested interest in cooperatively reaching a successful outcome.[12] As Thomas J. McCoy of the American Management Association has observed, "All ... become partners, bringing a whole new set of psychological elements into play. These elem nts are the motivational tools that separate incentive compensation from traditional compensation."[13]

In higher education, as well, administrators are finding that incentive pay programs motivate employees to work in partnership with leadership to achieve institutional objectives. Some colleges and universities already have cash incentive plans in place. One institution, for example, offers one-time cash payments to individual or groups for budget savings. Cognizant directors may award up to 10 percent of the identified savings—up to a maximum of $25,000 per project and $2,500 per individual, whichever is less. This institution offers its budget-savings award to all regular staff except senior officers and managers.

The criteria for the award are specific:

- Savings cannot compromise necessary service, needs, and operations;
- The method by which savings are achieved does not transfer work or costs to other departments;

- The end result has a positive effect on the institution as a whole, as well as the single department;
- The resulting procedures simplify work and rationalize work processes;
- Savings are achieved through cooperation across departmental boundaries.

Another cash incentive plan that is being used in a campus setting offers a one-time cash payment for special projects that require additional work of employees, or that require work that is different in nature from the employees' regular assignments. The institution pays the employees an additional 5 percent of base pay, or $2,500—whichever is greater—for the specified time frame of the special project.

One-time cash payments for exceptional service, base salary increases, and, for lecturers and faculty members, additional pay for one-time teaching assignments also are in place at colleges and universities. These payments do not to exceed 5 percent of base pay or $2,500, whichever is greater.

Group Incentives

The Model Department Initiative

One way to institute a small-group incentive pay program is through a model department initiative, which identifies and honors departments that carry out their work with distinction. In addition to cash and recognition, the members of the model work group also receive the opportunity to share their expertise with other institutional teams. Mentorship is a reward as well as a responsibility of recognition as a model department.

Designers of the initiative must market the program. They must appeal to all work groups within the institution, not just those that deal in tangible products. Let those groups that provide service know that they, too, can be rewarded—for their skills, their attitudes, and their abilities.[14]

In an article in the *Sloan Management Review*, Edward J. Ost listed five basic premises behind small-group incentives:

- The performance goals can be achieved only through teamwork.
- Payment of the incentive is conditional on meeting the goal.
- The participants can relate the payment to their contributions.
- The payment is perceived as equitable.
- The behaviors required and the rewards offered clearly delineate and support "good" performance.[15]

In this initiative, the provostially appointed selection committee welcomes nominations by faculty, staff, students, alumni, and work groups themselves. Applications may be submitted annually, with annual evaluation and award, or year-round, with awards on an annual basis.

Critical components to evaluate are:

- *Achievement*—Does the department display highly effective operations? Is the group getting the work done with distinction?
- *Resources*—Are systems for operational needs in place? Is there a health and safety program? Is there a diversity action plan?
- *Leadership*—Model department recognition is awarded not only for a product or service provided, but also for interactions among group members, between group members and clients, and between group members and supervisors. Are staff treated with dignity and respect? Are they supported and valued? How is staff morale? Is there a participatory process for goal setting and problem solving? Are efficiency and innovation encouraged? Are communication avenues in place and used?
- *Transference*—Can the model department's approaches be standardized? Is the department able to provide expertise to others?

In evaluating model department nominees, committee members should rate them according to clearly defined criteria. They might ask finalists to make a presentation to the committee, not only to help in the selection process, but also because articulation of accomplishments will instill pride in the work group members.

Sometimes it is helpful to provide work groups with a list of questions to address in their applications or presentations, including:

- What is the mission, or purpose, of the group?
- What is its financial situation?
- What is working well?
- What could be improved?
- What are the lines of communication?
- Is the department using technology to the greatest advantage?
- What distinguishes the department for consideration as a model?

Committee members might also consider making site visits to nominated departments and interviewing affected groups, such as clients and members of coordinating groups. Wherever possible, selection committees should consider tangible measurements obtained through customer opinion surveys, customer feedback, reduced occurrence of errors, or other data.

A few other caveats for selection committee members:

- Be careful not to mistake visibility for excellence. Sometimes the quiet group working diligently at its task is the one most worthy of recognition. For individuals, do not overlook managers of small groups, or the less expressive types. Judge by the contents, not the container.
- Watch for departments that are "managed up"—that is, departments in which the manager maintains high visibility on-campus, taking credit for the group's successes while leaving the day-to-day operations, directions, and team building to others.
- Target communication and selection methods to the audience the school most wants to reach. Inappropriate methods may mean the difference between a lukewarm reaction to the newly announced program and an ovation.

The selection committee should limit its awards to three or four departments each year so that the status of model department is regarded as a true honor.

Recognition of model departments may be communicated through forums, campus newspapers, and e-mail announcements. All staff members in the model department could be awarded certificates; the department could receive a plaque for display on a department wall. Staff might also receive free tickets to campus sporting events or cultural performances.

A cash incentive bonus could be placed in the operating budget of the recognized department, for disbursement at the discretion of department faculty and staff. They should set aside sufficient funds to facilitate the sharing of department expertise. These funds would compensate the department for time spent training other work groups. If a portion of the cash incentive is for distribution to individual members of the work group as bonus pay, make the check separate from the regular paycheck to highlight the incentive (this technique prevents it from being considered additional base pay). Some of the funds might be used for a celebratory luncheon or party, depending on the work group members' preferences.

It is the responsibility of recognized departments to share their expertise, stimulate replication of effective systems and approaches, and act as a resource for other members of the campus community.

Individual Incentive

The Model Manager Program

A model manager program identifies and rewards managers who have demonstrated exceptional performance and who educate the management community about how exemplary managers do their jobs. Such a program recognizes contributions that facilitate the missions of teaching and research, and clarifies the expectations of managers—to be effective managers *and* leaders.

The scope of the model manager program can be unit wide, department wide, or institution wide. Incentives may be awarded centrally or by local selection committees. It is advisable to have the provost or designee predetermine the number of model managers to be recognized each year so that resources can be distributed equitably, and so that the award is perceived as a true distinction.

Those recognized as model managers should demonstrate excellence in managing constantly changing, complex environments. They should display balanced behaviors and characteristics, showing that they are both effective leaders of people *and* managers of operations. They should demonstrate a willingness to provide informal advice and formal training to other managers to stimulate model manager behaviors.

The profile for a model manager should include competencies and accomplishments in four domains: leadership, business administration, human resources management, and communication.

As leaders, model managers are accountable for their department. They establish and communicate planned business direction, crystallizing their vision for their employees and the institution. They establish and communicate departmental goals and systems for people and operations. They apply systems knowledge to address complex issues. And they seek and experiment with better ways of doing business while maintaining an environment that fosters innovation.

As business administrators, model managers establish and communicate departmental structures and standards. They strategically implement plans and achieve results. They maintain constructive relationships with institutional officials, managers, and staff, to identify, communicate, and work with key stakeholders. They manage financial forecasting, preparation, and analysis; use information systems to optimize operations; maximize efficient work practices; and manage facilities in accordance with regulations.

From a human resources perspective, model managers effectively recruit, develop, and manage diverse staffs to create high-performing project teams. They communicate their expectations to their staff, including the in-

centives, rewards, and consequences of performance. They use negotiation and conflict-resolution skills effectively, and they know their own leadership style and how to modify it as necessary. Finally, model managers must provide a bridge between the expectations and vision of the institutional leaders with the daily needs and limitations of the teams they supervise.

Model managers must be effective communicators. They can write reliable business plans, proposals, and other communications, and present them to the appropriate stakeholders. Their oral presentations are effective, and they demonstrate interpersonal skills, such as listening, questioning, and feedback. They can organize and conduct productive meetings and build and use inclusive professional networks.

In the model manager program, nominations come to the designated selection committee—generally, a small group of respected leaders of the institution—from managers, staff, students, and clients. Nominations can be accepted at any time and reviewed annually, biannually, or quarterly. The program design team determines whether to present the award at the time of review or once a year.

Selection is based on the model manager profile—that is, on the manager's leadership, business administration, human resources administration, and strategic communications as outlined previously. A profile can be produced through interviews with focus groups answering the questions: What do successful managers do? What competencies do they have?

The recognized managers personify the institution's priorities. They demonstrate the behaviors that support management goals. Often, model managers are selected because they suggest, develop, or implement a system, process, or policy that improves the quality, service, and productivity of a key function of the college or university. Or they might have solved a long-standing or exceptionally sensitive problem. Some model managers are recognized for saving or generating a significant amount of money, or for significantly improving health and safety conditions. The key is to make awards based on demonstrated behaviors, not hearsay. In the selection process, it is critical to:

- Evaluate according to clearly defined behavioral criteria;
- Rely on observable, tangible behavior;
- Review performance evaluations;
- Collect data from key people, such as staff and clients;
- Observe the manager in action at meetings, presentations, or on-site visits.

As with the model department initiative, narrow the pool of nominees to three or four. Select finalists on the basis of committee discussion and

vote. Beware of candidates who thrive on visibility and knowing the right people—candidates who focus on managing their reputations and not on managing their work. Honor those who are willing to share their expertise and experience, and do not overlook the managers of small groups.

Making the recognition meaningful enhances the value of the award. Here are some ways to personalize the recognition:

- Present the award at a time that acknowledges the model manager's anniversary date, years of service, and/or unique contributions to the institution.
- Determine whether the individual would be more comfortable with a public or private ceremony.
- Ask someone important to the manager to present the award. This presenter may be the president or provost, a dean or vice president, a peer or staff member.
- Select a reward of value to the individual. Many appreciate words of praise or a meaningful memento as much as cash.
- Communicate the award to the institution through the campus newspaper, e-mail announcements, or other vehicles.

Some institutions may wish to make it the responsibility of the model manager's department to fund the cash incentive and provide release time for the manager to train and act as a mentor to others. Recognized recipients of model manager awards must be willing to speak at management forums, participate in management training sessions, participate in informational interviews once per quarter, participate in model manager teams for one year, and allocate the time and money necessary to share knowledge with other department managers.

Other institutions may choose to centrally fund their cash incentive programs. It can be argued that, through award recipients' responsibility to share their expertise, the dollars invested in a cash incentives program provide a relatively inexpensive means for staff development and training.

Challenges for Successful Implementation

Despite careful planning and firm commitment from program designers, implementers of an incentive program may meet with many challenges.

Although it is more difficult to implement a new reward program in times of downsizing, restructuring, or reorganization, it is usually during those times that model managers, departments, and teams rise to the occasion, exhibiting the leadership characteristics that need to be recognized

and emulated. True leadership surfaces during difficult times—which, at colleges and universities, can last for several years. At such times, an inspirational incentive program could help maintain employee morale through transitions, while offering up the exemplary work styles that will serve employees into the future.

Midprogram change and failure to follow through are the chief enemies of new incentive programs, and for a good reason. If the incentive is designed to recognize and reward the behavior that the institution values, and institutional values change, then the incentive program is no longer serving its own stated purpose. A change in leadership or management, a change in institutional culture or priorities, or an unexpected organizational change can undo all the planning that goes into an incentive pay program design.

Consider carefully whether to offer individual *and* group incentives simultaneously, or just one program. The uneasy relationship between group and individual recognition reflects the tension between team play and individual reward.

Communicating an Incentive Pay Program

After considering the target audience, program scope, and type of program, thoughtful communication planning is critical for success.

Several factors should be considered in planning communication of an incentive pay initiative:

- Determine the purpose and time line of the incentive;
- Specify the content of the award, including any responsibilities and expectations of those recognized;
- Determine the appropriate audiences for the announcement;
- Determine who will announce the reward program (usually the president, provost, vice president, or dean);
- Strategize the format of the reward to meet institutional purposes.

Some important questions to consider in planning communications are:

- What is the purpose of the communication? To seek feedback and critique on the incentive pay proposal? Or to generate nominations?
- What needs to be communicated? The purpose of the incentive, the expected outcome, and the process and time frame by which nominations will be considered should be included in the announcement.
- Who needs to be informed? Determine the key stakeholders in the

program, the primary beneficiaries, and who will be affected.

- Who will communicate the message? Who has the most influence with those who will support the program? If the program is institution wide, it may be the president or provost. If it is school wide, it may be a dean or vice president. If it is department wide, it may be a department director.
- How should the communication occur? Formal announcements, campus newspaper articles, memos, and electronic mail messages are some of the vehicles for communication.

Conclusion

Using cash incentives to help employees achieve their best productivity may be the most cost-effective way to communicate and stimulate the work behaviors that the institution values. Including a mentoring role as a part of recognition of model departments or model managers not only spreads the expertise, but also provides a boost to the morale of those recognized—a clear message that the institution finds merit in their performance.

In designing an incentive pay program:

- Delegate selection to a small committee of the right people;
- Announce the award program to key stakeholders;
- Evaluate those nominated against clearly defined, measurable criteria;
- Celebrate appropriately and communicate awards to the campus community;
- Teach and stimulate emulation of the model behaviors through forums, workshops, and one-on-one sessions with other members of the campus community.

Incentive programs for model behavior are a cost-effective tool for improvement. Defining, encouraging, rewarding, and stimulating desirable work behaviors can improve overall institutional innovations and effectiveness, as well as the quality of life in the workplace.

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